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The Dutch miracle: institutions, networks and trust

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Abstract

Between 1982 and 2000, the Netherlands experienced a remarkable economic recovery. Labour participation rose from a European low of 52 percent to the European average of 65 percent. Unemployment decreased from a high of 14 percent to a present-day low of 2½ percent, while government finances and social security were reorganised. This paper aims to demonstrate how the Dutch culture of consensus, reflected in the Dutch institutional consultation structure, was one of the main driving forces of this recovery. The trust enhancing effects of the institutional framework, in which government, unions, employer organisations, centra1 bank and advisory bodies meet each other frequently in forma1 and informal atmospheres, produced an environment of mutual trust and co-operation that was capable of effectively dealing with the problems. Two decades of wage moderation and increased labour market flexibility have led to economic prosperity without significant social unrest. It is an example of an institutional framework that transforms trust between persons and organisations at the micro leve1 to positive macroeconomic effects.

Keywords: labour market policy, institutional framework, networks, trust

1. Introduction

Between 1982 and 2000, the Netherlands experienced a remarkable economic recovery. Some people even speak of a "Dutch miracle" and hold the so-called "Polder model" responsible. Highlights are the increase of labour participation from a by international standards relatively low 52 percent to the European average of 65 percent, and the decrease in unemployment from a high of 14 percent to a present-day low of 2% percent. Furthermore, government finances turned from a 9 percent deficit to a smal1 surplus and the social security system was drastically reorganised.

Several explanations have been given for this miraculous recovery. This paper focuses on the role of the specific Dutch institutional framework of social-economic policy preparation as a driving force of the recovery. The Dutch culture of consensus finding in combination with the institutional consultation structure in which government, unions, employer organisations,

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centra1 bank and advisory bodies meet each other frequently in forma1 and informal atmospheres, produced an environment of mutual trust and co-operation that was capable of effectively dealing with the problems of the economy.

The concept of trust becomes relevant for economic analysis when one drops the standard assumption of perfect and free information and takes care of the notion of bounded rationality. In a situation of imperfect and asymmetric information, which is typical for the policy making process, it is impossible to write complete and legally binding contracts. This offers the possibility of opportunistic behaviour by transaction partners. This means that agents can gain extra benefits at the expense of their transaction partners (Williamson, 1985). In these situations, trustworthiness is regarded as the characteristic of the party that refrains from opportunistic behaviour. Trust is the expectation of a party that the other party will behave trustworthy. It favours co-operation. The combination of game theory and the practica1 problem of co-ordination between different parties at the labour market shows that - in genera1 - parties will be better off if they co-ordinate policies than they would be in the Nash uncooperative equilibrium in which each party sets its policies while taking those of the others as given.

A major advantage of building trust by co-operation of unions and employer associations is that hold-up problems can be prevented. Two decades of co-operation between unions and employer federations in the Netherlands have crystallised into a sustained combined strategy of lowering wage costs, increased labour market flexibility and investment in employment. Although this strategy involved twenty years of wage moderation (during which profits of firms were restored), social unrest in the form of strike activity has been negligible. Although wage moderation in The Netherlands can be seen as just the Phillips-curve effect in reaction to high unemployment, a major argument of our paper is that this sustained co-operative stance can only be explained in terms of high mutual trust between the negotiating parties of labour standards. The institutional framework can in this way be seen as the intermediary element that transforms trust between persons and organisations at the micro leve1 (often found in microeconomic game experiments) to positive macroeconomic effects.

Yet, in spite of the enhanced labour participation, and in spite of various reforms of the social security system, demand for social security benefits remained high in the Netherlands, especially with respect to labour disability, where a considerable part of the receivers of benefits are unemployed in disguise. Hence, this outcome of the reforms in the social security system shows a remarkable discrepancy between the behaviour of social partners in the wage setting process and their management of social security. The first can be considered highly responsible and praiseworthy, the second is a clear example of rent-seeking behaviour. In the constellation where on the one hand social partners had to decide about the implementation of the social security system, and on the other hand government had to bear all costs, social partners frustrated the workings of the system by using it as a “dump” for less-productive workers. In that way they took no interest in the costs for society. This may be a lesson that a co-operative stance in one field of policy does not form a guarantee for joint utility maximising behaviour in other fields. The institutional structure must always be given the shape that intemalises all extemal effects in the decision procedure.

The content of the paper is as follows. Section 2 gives a short overview of the main characteristics of the transition from the Dutch disease to the Dutch miracle. The main institutions and their role in the “Polder” model are discussed in section 3. In this discussion, a special emphasis is laid on the trust enhancing aspects of this institutional framework.

Section 4 explains the relevance of trust for the efficient fùnctioning of labour markets in some more detail. After the treatment of the theoretical model, we show the appropriateness of the model for the Dutch (labour) market. In section 5, we confront the findings of the earlier sections with the actual interaction of the policy makers in the Dutch institutional setting. The Wassenaar agreement and the main policy measures that are held responsible for the economic recovery are analysed in the light of trust between the main players and the theoretical model discussed in section 4. Section 6 concludes.

2. From Dutch disease to Dutch miracle

The post-war period until 1963 can be characterised by strong GDP growth, full employment and, because of govemment wage control, modest wage increases. After the period of reconstruction which ended in the mid 1950's the Dutch economy was characterised by former Minister Andriessen (1987) as an economic eldorado. It was a period of Keynesian demand management, with hardly any cyclical downturns.

The system of govemment wage control more or less stops functioning after 1963. This is caused by pressure from the market - where labour shortages lead to "black wages" - and from social partners (labour unions and employer associations) who want to stop government interventions in "their" labour market. The gradient release of wage setting comes at the same time with the transition to a modem welfare state by expanding social security with a number of provisions which, later, prove to be very generous (see table 1). The discovery and exploitation of large stocks of natura1 gas contribute to the politica1 belief that such a generous and extensive system is sustainable and can be financed.

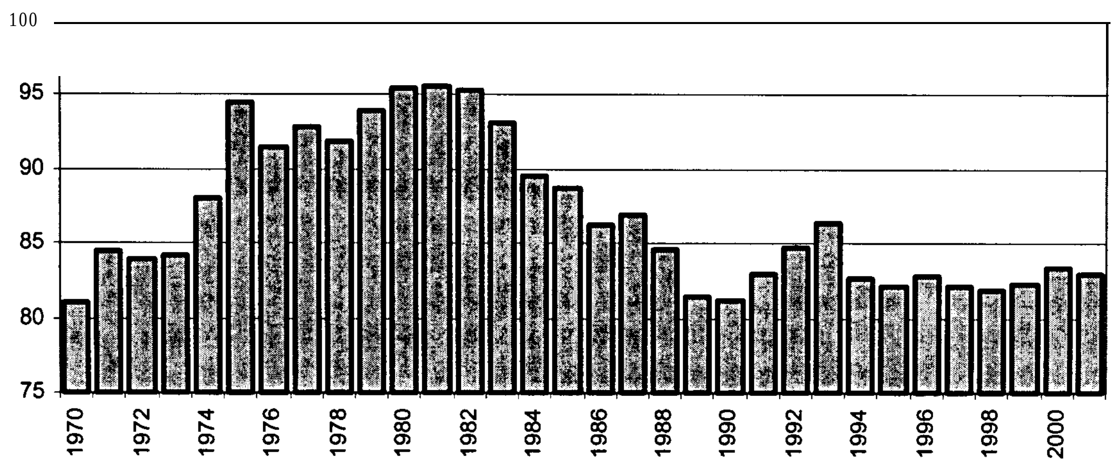
Table 1: Social security, main legal provisions

Employee insurance	
1930 Sickness Act (ZW)	Income loss due to sickness
1949 Unemployment Act (WW)	Income loss due to unemployment
1964 Sickness Fund Act (ZFW)	Covers medical expenses
1967 Disability Act (WAO)	Income loss due to disability
National insurance	
1957 Genera1 Old Age Act (AOW)	Old age pension
1959 Genera1 Widows and Orphans Act (AWW), replaced by Genera1 Survivors Act (Anw) in 1996	Pension for widows, widowers and orphans
1963 Genera1 Child Allowance Act (AKW)	Child allowance
1967 Genera1 Exceptional Medical Expenses Act (AWBZ)	Exceptional medical expenses
1976 Genera1 Disability Act (AAW)	Disability for others than employees
Social provisions	
1965 Genera1 Social Assistance Act (Abw), replaced in 1996 by new Genera1 Social Assistance Act	Social assistance

The oil shock of 1973 marks the end of this period. The shock leads to high energy prices and, through the automatic price compensation, to a proportional rise in wages and benefit levels.

The guilder remains strong because of the revenues from the export of gas. This worsens the competitive position, which hinders exports and depresses the exposed sector. The economic problems in is period have become known as the Dutch disease. So, prices and wages increase, and profits are squeezed. Unemployment starts to rise (and nearly does not decline in the period between the oil shocks) and the Keynesian expansion policy of the government now leads to rising budget deficits. The second oil shock (1979-1980) worsens the situation even more. The wage share in market sector income – the share of the added value that accrues to the factor of labour and is therefore not available for capita1 costs – increases to 95 percent (see figure 1). Unemployment reaches a high of about 14 percent in the beginning of the eighties. The government tries to enforce wage restraints by intervening with mandates on wages, but these are not very successful in this period.

Figure 1: wage income share market sector (in percentage of GDP)



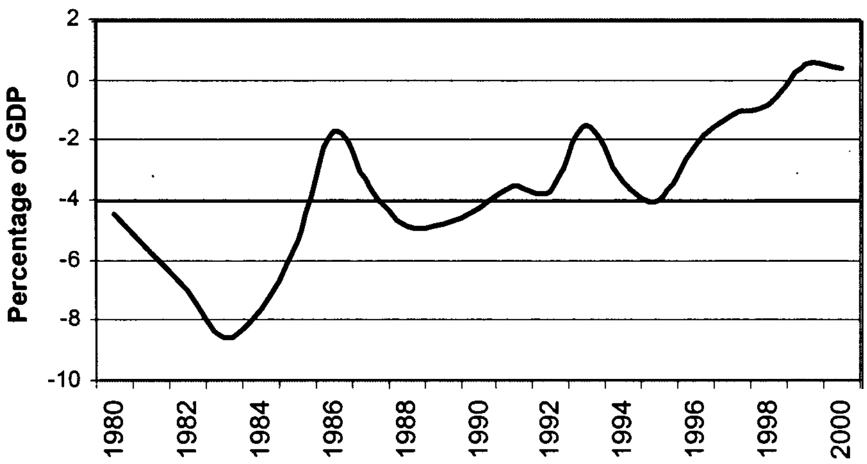
Source: CPB, *Centraal Economisch Plan 2001.*

Finally, in 1982, labour unions and employer associations reach agreement on a policy of voluntary wage restraint and redistribution of work in order to restore profits and fight unemployment in the so-called Wassenaar agreement. This agreement marks the start of a period of relative wage moderation (e.g. vis-à-vis real wages in Germany) which results in a considerable decrease in the labour-income ratio. In section 4 we discuss further how the agreement acts as a major first step in the transition from the Dutch disease to the Dutch miracle. This switch in policy and its acceptance are more or less initiated by insights of the economic profession that Keynesian demand management is no longer an adequate policy receipt to combat stagflation. It becomes understood that the negative supply effects of wage rises are, through lower profits and worsening of the competitive position, stronger than the positive demand effects.

The start of the Lubbers Cabinet in 1982 also marks a switch in fiscal policy. The gradual expansion of the public sector (centra1 government, local government and social insurance) comes to an end and the government budget deficit declines from 8.6% in 1983 to small surpluses in 1999 and 2000 (see figure 2). The strict budgetary policy results in a decline of the share of taxes and social security premiums and the share of public expenditures in GDP between 1983 and 2000, namely from 47.4 to 41.4% and 58 to 40.0%[3].

[3] CPB, *Centraal Economisch Plan 2001.*

Figure 2: government budget, the Netherlands

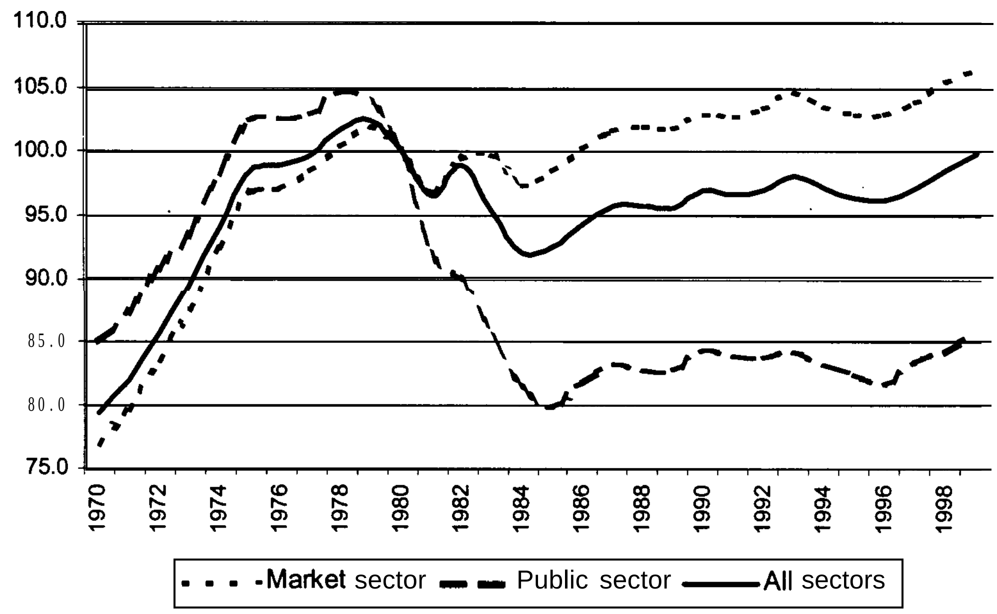


Source: CBS, ***Statistical Yearbook***, SDU publishers, The Hague.

This policy of budget constraint is enforced by two developments. First, employment in the public sector decreases from 15% to 11.7% of total employment, while the wages of civil servants stay largely behind market developments. Putting the index for (nominal) contractual wages at 100 for base year 1980, wages in the private sector rise to 170 in 1999, while workers in the public sector see their income rise to 137[4]. In real terms, hourly wages in the public sector stil1 are in 1999 almost 15 percent below their 1980 leve1 (see figure 3). Remarkably this happens without serious unrest among the govemment personnel, although union density is relatively high in the public sector. The second source of budget improvement comes from reduction in expenditures on social security – particularly because of lower benefit levels and not so much because of a reduction in the number of benefit receivers.

[4] CBS, ***Statistical*** *Yearbook,* SDU publishers, The Hague.

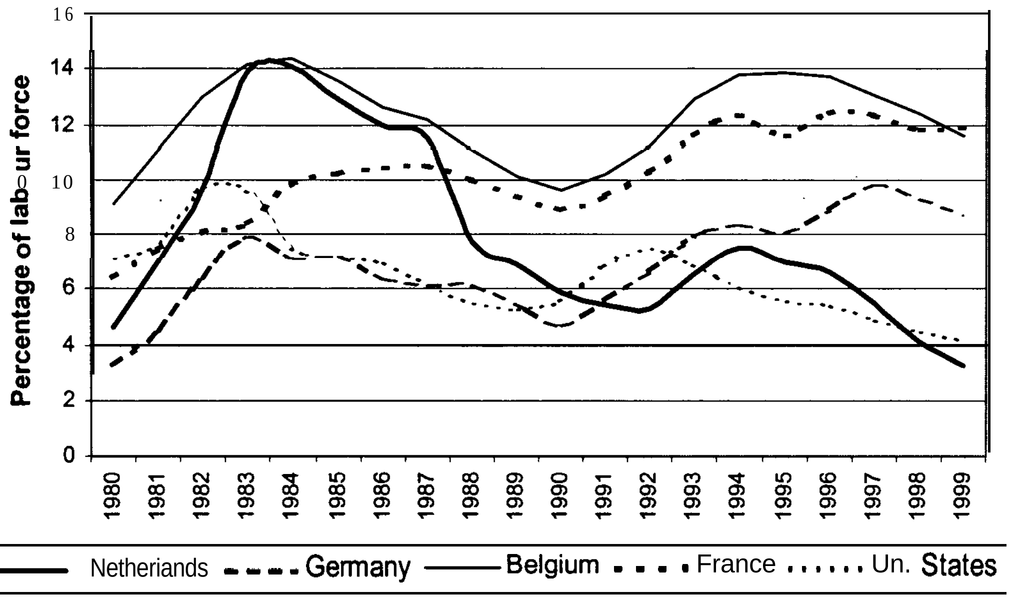
Figure 3: Real hourly wages (1980 = 100)



Source: CBS, *Statistical Yearbook*, 1970-2000, SDU Publishers, The Hague

Yet, the most noticeable change in the Dutch economy is the decline in unemployment from about 14 percent in 1983 to 2½ percent at the end of 2000 (see figure 4). Especially the fact that other European countries that used to experience the same cyclical circumstances as the Netherlands stil1 write double digits for their unemployment performance makes this remarkable. However, official unemployment figures are not fully comparable between countries. In the Netherlands, people above 57 years old don't count as registered unemployed, because they are no longer obliged to search actively for a job since 1983. Another typical Dutch arrangement is the widespread use of early retirement, which also distracts older workers from the labour force. Above this, the Dutch disability benefit scheme attracts two to three times more people than it does in other countries: part of these receivers of a disability benefit can be regarded as unemployed in disguise, especially as the disability scheme is more generous than the unemployment scheme (Aarts, Burkhauser and De Jong (1996), Hassink (1997), Lindeboom (1992)). These three options for a comfortable early exit have resulted in a very low participation rate for elderly in the Netherlands.

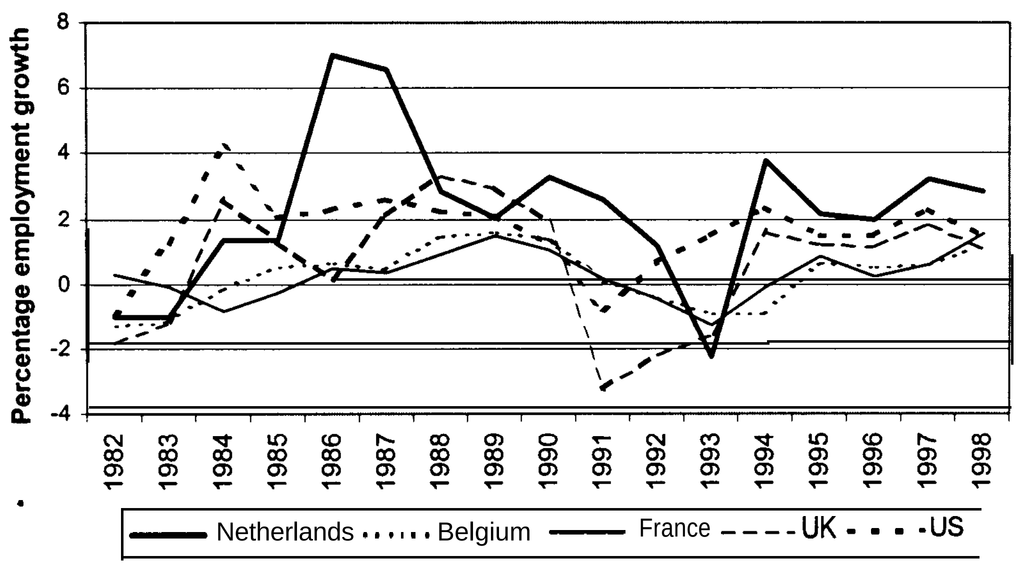
Figure 4: Unemployment (percentage of labour force)



Source: ILO Yearbook of Labour Statistics.

Although the unemployment figures look a little less spectacular given these considerations, the figures about employment are far more conclusive, and again underline the economic miracle. From 1984 on, employment growth is clearly above European average and comparable to the results of the American job machine (see figure 5). Labour participation rises from an European low of 52 percent in 1983 to 65 percent, which is about European average.

Figure 5: Annual employment growth



Source: ILO Yearbook of Labour Statistics.

3. Institutions, consultation structure and effects on trust

In the preceding section we gave an overview of the transition – from Dutch disease to Dutch miracle that took place in the Dutch economy. In this section we focus on the specific Dutch institutional framework that, in our eyes, made this recovery possible. We pay attention to peculiarities of the Dutch society as the "drive for consensus" and "pillarisation", and how these are reflected in the institutional setting. After the discussion of the various players in the field of economic policy making, we pay attention to some specific legislation on labour standards negotiations to get a better understanding of the functioning of the Dutch labour market. Throughout the whole section, a special focus is laid on the trust enhancing effects of the institutional framework. In section 4, we explain why trust is important for economic policy.

Consensus and pillarisation

The drive for consensus is often considered as a dominant social characteristic in The Netherlands. Its origin may even be the Dutch historic context of the struggle against the water. Already in the twelfth century public boards came into being to organise protection against the sea and initiate land-winning procedures. This common interest forced people to co-operate with each other and to reach a compromise, or preferably a consensual agreement, in order to be able to defend themselves against the danger of floods in all circumstances. Moreover, for the farming in "polders" agreement is needed on the level of the ground water and on good maintenance of the dikes and ditches.

This idea of consensus formation as dominant social characteristic was, in a portentous way, combined with another peculiarity of the Dutch society, namely its "pillarisation". During the twentieth century until the seventies, the Dutch society was separated into four "spheres of influence", i.e. into four separate "pillars", namely catholic, protestant, socialist and liberal. These four pillars had their own schools, newspapers, broadcasting companies, sport clubs and political parties. For a large part, people communicated with each other only within each pillar. At the level of government, however, the leaders of the different pillars did not hesitate to contact each other and form coalition governments. These coalition governments are a necessity in The Netherlands, where the political parties originally represented the various pillars. It has never happened that a single party obtained a majority in parliament. This system of coalition governments forces the different political streams to work together, reach compromises and, even better, consensus.

This drive for consensus and pillarisation constitutes the background for the institutional framework for (economic) policy formation in The Netherlands. An insight in the working of these institutions is crucial for the understanding of how the trust enhancing effects of this institutional framework have contributed to the Dutch miracle.

Central Planning Bureau

A crucial role in this institutional set-up is played by the Dutch Central Planning Bureau (CPB) which has now renamed itself in English as The CPB Netherlands Bureau for Policy Analysis (CPB) as it does not want to be associated with economic planning in the sense of the socialist economies. Yet, it was founded in 1948 originally as a central planning bureau for economic affairs, with Tinbergen as the first director.

In spite of the fact that the CPB is formally part of the Ministry of Economic Affairs, it fulfils its advisory task independent from government interference. This status of independence is recognised by all parties and stakeholders in the policy making process, which has provided the analyses of the CPB with high reputation and esteem. The two major periodic publications of the CPB are the Centra1 Economic Plan (CEP) and the Macroeconomic Outlook (MEV). The Centra1 Economic Plan is published each year in springtime and contains a survey and analysis of economic developments in the Netherlands and abroad. The CEP also contains economic forecasts for the current year. The MEV is published together with the government budget in September each year and contains the forma1 forecasts of the economy in the next year, on which the govemment budget has to be based. Moreover, the MEV gives revised projections for the current year.

In fact the CPB nowadays has two major tasks. The first is that of national auditor: this implies economic forecasting and assessment of the effects of policy measures for the govemment and for other groups involved in the policy making process. The second task of the CPB has remained, up to now, somewhat underexposed. It is that the CPB conducts, in the more genera1 sense, applied economic research (see Don, 1996).

CPB's reputation of independence has been challenged from time to time both in academia and by the press, especially with respect to its task of forma1 auditor for the govemment. Here the position of the CPB is in fact that of a monopolist and it is true that the CPB has a special position, as it has access to confídential information on govemment policy. This position is needed in order to be able to react promptly on questions by policymakers, which mainly regard technical and accounting aspects in policy discussions. Yet, in the institutional framework for policy making in the Netherlands a nurnber of checks and balances have been built in order to prevent the CPB to misuse its monopoly position. Such misuse would also immediately destroy much of the reputation that the bureau has built up so carefully. Besides it is a question of efficiency to have, in a relatively smal1 country as the Netherlands, only one institute which is responsible for this kind of macroeconomic forecasting and policy evaluations. This task requires a lot of specific investments and hence the institute has to be quite sizeable. It is typical for the institutional set-up of Dutch policy making that there are numerous forma1 and informal contacts between the staff of the CPB and the economists at ministries, researchers in academia and the staff of the social partners. On the one hand they provide relevant information to the CPB, but, on the other hand, they will, if needed, be critical on the work of the CPB.

The CPB does not hold a monopoly position for its second task, namely that of institute of applied economic research. Here, it competes both with other Dutch institutes and with institutes abroad. Nowadays the CPB is asked more frequently than before to give a second opinion on research conduct by other institutes. Moreover, intemational organisations such as the OECD, the staff of the European Commission and the IMF publish periodical forecasts for the Dutch economy.

Since the CPB's first director Tinbergen (1936) has built the first econometric policy model it is understandable that model based policy analysis has, from the origin, constituted an important part of the work of the CPB. The CPB's 'model' early acquired a high status in academic circles and has come to be regarded in Dutch society as an objective piece of economic science (Den Butter and Morgan, 1998). The analyses of the CPB are widely used as input for social economic policy discussions. However, in the first few years of the CPB there was a fierce intemal discussion in the CPB about the way the bureau should give shape to its advises (see Van den Bogaard, 1998). On the one side was Van Cleeff, who had the view that the CPB should follow a normative approach, while on the other side Tinbergen supported the idea of disentangling the positive and normative elements of the analyses. Crucial in this controversy was in which way economic policy advice would be the most successful in the "pillarised" economy. Van Cleeff tried to develop an all-embracing normative theory which would integrate the ideas of the different pillars. Tinbergen wanted to develop a method that would give the most objective description of reality. The differences between the pillars would then be minimised to their different normative proportions. In other words, he wanted to make a clear distinction between the workings of the economy (model) and the policy goals (welfare functions), and then "try to agree on the first and compromise on the second issue". Tinbergen won this battle. Since then, economic policy preparation in the Netherlands is organised in three autonomous parts: data, model and norms. The data and statistics are collected by the Centra1 Bureau for Statistics (CBS), the workings of the economy are described by the models of the CPB and the balancing of different points of view is done by the govemment in dialogue with unions, employer organisations and other associations of organised interest. This method of splitting facts and politics seems to be the best in creating consensus in a pillarised society.

A major and unique example of this functioning of the CPB in policy consensus (or rather compromise) formation is that, in years in which genera1 elections for parliament take place, the major politica1 parties ask the CPB to calculate the effects of their election programs for economic growth, employment, income distribution and so on. The results for the different politica1 parties are widely spelled out in newspapers and television programs. Seemingly it is almost a realisation of Tinbergen's dream to separate the knowledge on the working of the economy, which is contained in the models used by the CPB, and the normative preferences on trade-offs between policy goals, which will differ for each politica1 party (or pillar). In fact this procedure has proofed beneficial in the formation of coalition governments and in drafting the "government agreement" that is signed by the various politica1 parties who co-operate in the coalition government. In the discussions after the elections, when a new govemment has to be formed, those policy measures put forward by the various politica1 parties have the best chance to be included in the govemment agreement that have, according to the calculations of the CPB, the largest favourable effects on the major policy goals.

However, this procedure may bring about some questionable side effects. Firstly the CPB will not include the various policy proposals by the politica1 parties at face value in their model calculations, but there is ample interaction and discussion between the party officials who write the economic sections in their politica1 programs, and the staff of the CPB who implements the proposals in their models. So this exercise of the CPB may lead to revisions of the proposals by the politica1 parties before they are published in their final programs. A second, even more questionable side effect is that the economists of the politica1 parties have become familiar with the properties of the models of the CPB and will, in their policy proposals, see to it that they are effective in terms of the CPB models. In fact a bad performance in the CPB calculations, especially with respect to employment, can lead to a large loss of votes in the elections. The result is that this procedure made the policy proposals of the politica1 parties to be very much in line with proposals which are beneficial according to the models of the CPB. So it has led to a remarkable convergence of policy plans, which contributed to the lack of interest of the Dutch population for genera1 elections – apart from "depillarisation" which may be another course. Moreover, there is a risk that the way the CPB models describe economic reality is not correct, so that all politica1 parties are begging for the wrong horse in the design of their programs. This would imply an extraordinary example of a politica1 lock-in.

Central Bank

The second institution which traditionally plays a major role in macroeconomic policy is the Dutch Central Bank: the Netherlands Bank (DNB). The formal task of DNB is to conduct monetary policy in order to combat inflation and to keep the value of the money stable. The Dutch Central Bank has always been quite independent from government intervention so that it can traditionally be ranked amongst the world's most independent central banks. On the other hand, the role of DNB in the policy discussions in the Netherlands is not restricted to monetary policy; DNB takes part in the most prominent forums for policy discussion in the Dutch Polder model. The advice and policy analysis of DNB are well respected and carry a large weight. Moreover, there is ample informal co-ordination with fiscal policy: the President of DNB has regular lunches with the Minister of Finance and the Treasurer General, who is a highly ranked civil servant at his ministry. The exchange rate policy of DNB also played an important role in economic recovery. The monetary policy of fixing the value of the Dutch guilder to that of the German Mark can be seen as a major contribution to the success of the policy of wage moderation. In this way, the relative decrease of labour costs in the Netherlands due to the policy of wage restraint, was not sterilised by a nominal appreciation of the guilder. As a result the Dutch guilder depreciated in real terms, which was beneficial to the international competitive position.

Foundation of Labour

It is typical for the Dutch Polder model that the social partners are at the heart of the consultation structure for economic and social policy. The "Foundation of Labour" (STAR) is the formal platform where employees and employers meet each other on a structural basis. It was founded in 1945 as a private organisation and acts as a bilateral forum of discussion for unions and employer associations in the field of labour standards. The seats are equally divided between the two, and both sides deliver one of the two chairmen. The results of the discussions are stated in "central agreements". This occurs about once in two or three years.

Social Economic Council

Yet the major forum for political discussions which is associated with the Dutch Polder model, is the Social Economic Council (SER). The SER is the main policy advisory board of the government for social economic matters. Its constellation is tripartite. Labour unions, employer associations and independent "members of the crown" each posses one third of the seats. There are three important labour union federations: the socialist/catholic FNV, the protestant CNV and the MHP for middle and higher ranked personnel/managers. Nation-wide union membership rate is about 27 percent, of which 64 percent belongs to the FNV, 19 percent to the CNV, 11 percent to the MHP and 6 percent to other unions[5]. There are also three employer federations at the central level. The most important is the VNO-NCW, which acts as a representative for all employers. Members of this federation are both individual firms and lower level employer organisations, often organised by industry. MKB and LTO are the representatives for respective firms of middle and small size, and firms in the agricultural sector. The "members of the crown" consist of professors of university faculties of economics and law, politicians, the president of the Dutch Central Bank and the director of the CPB.

It is through these independent members that the policy discussions within the SER benefit from the insights of scientific research. The analyses of the CPB and DNB carry a large weight in these discussions. Policy advises by the SER are prepared in committees where representatives of the three categories discuss and amend texts drafted by the Secretariat of

[5] These CBS data relate to January 2001.

the SER. Representatives of various ministries attend these meetings of the committees but formally they are observers. They will not take part in discussions unless they are asked to provide relevant information. Obviously it is important for the impact of the advises of the SER that they are unanimous. It is quite exceptional that the government would disregard a unanimous policy advice of the SER. The independent members of the crown (which, by the way, represent the various pillars in the Dutch society) can, in informal discussions, be helpful in reaching such a consensus advice. A major role in this situation is played by the chairman of the SER, who is also an independent member, and understandably has a crucial position in the institutional set-up of the Dutch Polder model.

The SER has an important function in promoting trust between the various policy makers by acting as a platform of discussion for social partners, government, centra1 bank, CPB and scientists. The positive role of the SER has, however, not always been recognised by the government. The legal provision that the government was obliged to ask the SER for advice on all proposals for social-economic legislation was abolished in 1995. The feeling had arisen at the government leve1 that this procedure took too much time and caused too much "stickiness" in the policy preparation procedures. However, instead of weakening the position of the SER in the process of policy preparation, this measure seems to have strengthened it. The measure worked, probably unintended by the government, as a trigger mechanism for the members of the SER to reach consensus in its policy recommendations. Recommendations that are signed unanimously by the three parties involved give a strong signal to the government of societal consensus on specific policy measures, and are therefore much more powerfùl than recommendations that reflect divided opinions. As mentioned above, the Dutch culture of consensus puts strong pressure on the government to follow unanimous recommendations. The government is, however, not bound to act in the way the SER recommends, although it is obliged to give a forma1 reaction statement at every published advice.

The SER thus fulfils two main purposes. First, it works as a device for the government to get informed about the points of view of employee and employer organisations about social-economic questions. Especially the unanimous recommendations give the government clues about what policy measures will be supported by society. Second, the SER works as a platform that brings together employee and employer organisations to talk with each other about social-economic matters. The presence of economic and legal scientists makes sure that the discussions are based on solid arguments. In this way they learn about each motives and objectives for and against certain policy measures. This prevents misunderstandings and can form a basis for developing mutual trust.

One of the major aspects in the negotiations in the SER, which is related to the idea of trust, is that the main negotiators meet each other regularly both in forma1 and in informal meetings. So it is the repeated game aspect of trust formation which plays an important role here. An example of this attitude can be found in an interview by Arjo Klamer (1990) on the occasion of the 40th anniversary of the SER. Klamer posed the following question to Jan Stekelenburg, at that time the chairman of FNV, the largest trade union. 'My impression is that you and Van Lede – chairman of the largest employers organisation – are very much on speaking terms and that you are more friendly to each other than the outside world believes you are.' Stekelenburg's answer is: 'NO, no, that is not true! It is certainly not true that we're constantly fighting with each other, but at the moment of conflict it is clear and apparent and we don't ease the problem when we are together.' Then Klamer asked: 'Did it happen that you were really angry with Van Lede?' Stekelenburg replied: 'Yes, when there is really a large conflict

1 may be angry. However, it will happen in a way which does not harm our future relationship, because we are condemned to each other. We need each other in these negotiations on labour relations, so that we should be aware that after a big quarrel we will always be forced to come back to business in a next situation. So the real hard and definite battle will never be fought.'

Committees

A further major role in this technocratic process of economic policy preparation is played, albeit somewhat outside the spotlights of attention, by committees inside the ranks and files of the government. The "Council for Economic Affairs" (REA) and the "Centra1 Economic Committee" (CEC), are especially influential in this respect. The CEC consists of highly ranked civil servants from the key ministries involved in economic and social policy. The committee is chaired by the secretary genera1 of the Ministry of Economic Affairs and it is through discussions in this committee that calculations by the CPB have inspired to major changes in economic policy (see Den Butter, 1991). Incidentally, when no consensus can be reached about difficult policy problems in the institutional framework sketched above, special committees are established for policy advice on these problems. A recent example (2001) is the committee chaired by Donner, former chairman of the Scientific Council for Government Policy and member of the "State Council", which is asked to provide a new design for the social security arrangements for disabled workers (WAO).

Scientific Council

A danger that threatens the close consultation structure as it exists in the Netherlands is that it is susceptible to inertia, and even to lock-ins so that radical changes will never be initiated. In order to get out of such a situation, it sometimes helps if an outsider rings the alarm bell. This has become one of the functions of the Scientific Council for Government Policy (WRR). The WRR was founded in 1972 to provide advice to the government about long-term policies. Though this multidisciplinary Scientific Council is not a really a part of the consultation structure of the Dutch labour market, its reports are among the most influential social-economic analyses.

Parliament

After all consultations in the institutions in the Polder model have been conducted, it is, of course, in the democratic state of the Netherlands in the end always the parliament that decides about policy measures proposed by the government. Yet the outcome of the consultations will always carry a large weight in the voting behaviour of the members of parliament.

Wage negotiations

It is not only in the structure of organised meetings in the STAR and SER and other platforms that trust between policy maker is improved. Also the genera1 structure and legal environment of the wage negotiations give incentives to the different parties to co-operate and reach consensus. We first take a look at these features of the wage negotiations at the centra1 level, after that we continue with negotiations at industry and firm level.

At the centra1 level, two times a year a fixed consultation process between government and social partners takes place. These are called the "spring"- and "autumn''-consultation. These are again two moments when official meetings between government and social partners take place, but the process also favours trust within the organisations, as will be clarified below. Starting-point for the spring-consultation is the new plan for the government budget, the autumn-consultation marks the beginning of a new round of wage negotiations. The preparations for the yearly cycles of wage negotiations start in the two largest federations of unions (also see Teulings and Hartog, 1998: 281). The biggest employee federation, the FNV, uses the macro-economie forecasts of the CPB to calculate the "wage bargaining space". This concept describes the reasonable wage cost increase and is usually calculated as the sum of inflation and change in labour productivity. Note that it is not defined in what definitive form this wage space should be realised (wage increase, labour time reduction, schooling, fringe benefits). Together with other wishes, this is written down in a document and then discussed with the chairmen of all member unions. The other big federation (CNV) follows a procedure that is quite similar. Apart from this consensus and consultation approach, the centra1 strike fund serves as a way to promote unity in union federations. Only unions that strike in line with federation bargaining positions can receive support from this centra1 stike fund. These are two ways to keep member unions and the federation at the same line of policies.

Employer organisations also co-ordinate their bargaining positions for the new wage negotiations. The Committee for the Preparation of Wage Policies prepares the fundamental principles for the negotiations in each year. A genera1 strike fund is open for members that are hit by strikes that deal about fundamental issues discussed by the Committee.

Incentives for co-operation are also present in negotiations at the industry and firm level. To make this clear, we first have to take a somewhat closer look at the regulation of collective labour agreements. Two laws regulate the completion of collective labour agreements. First, the Law on the Collective Agreement of 1927 stipulates that the terms of a collective agreement are binding for all workers in the firm, not just members of the union signing the agreement. Second, the Law on Mandatory Extension of 1937 gives the right to the Minister of Social Affairs to extend a collective agreement to the entire industry. To get extension, one of the bargaining parties must send a request to the Minister, who checks some forma1 criteria. The most important is that the collective agreement must cover a substantial majority of the industry. The maximum duration of an extension is two years.

There are several features in the system of wage bargaining that give incentives to all unions to sign an agreement and to the employers to sign an agreement with all unions (also see Visser and Hemerijck, 1997). By making it favourable for all parties to reach an agreement, these incentives stimulate the formation of consensus and trust. Because an agreement can only be reached when standpoints come together, this incentive structure also favours the moderation of demands and wishes of the parties and thereby promotes "reasonable" outcomes.

An important incentive comes from the fact that employers are free to start negotiations with any union, but are not obliged to do so. Firms are not legally bound to acknowledge any union. The law of 1927 states further that when the employer signs an agreement with any union, this agreement functions as the agreement for all employees, regardless of their eventual membership of this or another union. So, at any moment, anyone can start a union of his own and every union can try to get in negotiation with the employer. Unions are allowed by court to strike to reach this purpose. This means that unions always run the risk of being excluded from labour negotiations by the employer. This sometimes even occurs to the most important unions, so it is a credible threat. The main reasons why unions want to be involved in the negotiations are threefold. The first reason is of course that they want to reach something for their members. They have no reason of existence if they're not the sparring partner of the employer. The second reason is that only the unions that have signed the agreement are entitled to the rights that come forth out of the agreement. The third reason is that the unions that have signed the agreement receive a fixed amount of money per worker in the firm/industry, to be divided between the different unions in proportion to their respective amount of members. The combination of these three reasons with the possibility of exclusion gives unions incentives to form coalitions with other unions and mitigate their claims. They are very well aware that the party with the most extreme claims bears the highest risk to be excluded.

The employers also face an incentive to include as many as possible unions in the negotiations. Collective labour agreements usually contain a clause that forbids the unions to organise or support strikes during the time period the agreement is valid. Since, of course, only the unions that signed the agreement have to obey this clause, the employers have an incentive to get the agreement signed by as many unions as possible.

Trust evaluation

Looking at the Dutch institutional framework for social-economic policy preparation, we notice that it has several characteristics that favour the formation of trust and co-operation. To begin with, there seems to be a character trait or culture prevalent in the Netherlands that is favourable to co-operation and consensus, possibly descending from a joint fight against the water. With other words, there seems to be a sort of "basic trust" upon which actual mutual trust can be developed. This can also be related to the idea of the path-dependency of trust (see for example Putnam, 1993). Given the fact that most people in a society feel inclined to act in trustworthy ways, it is beneficial for all people to keep to this way of transacting, because it will raise extra benefits for the involved parties by being able to solve co-ordination type of games. However, when most people in a society are used to act in uncooperative ways, every individual must distrust other people in order not to be exploited. In this way, the leve1 of trust at a given date in a society has its effects for trust in the future. The inherent co-operative stance of the Dutch thus favours the formation of trust.

A second characteristic is that people are aware of an extemal threat and their own vulnerability. This extemal threat used to be the water but nowadays seems to be replaced by foreign competition. The inhabitants of smal1 open economies have to find ways to deal with this without the option of protectionism. This demands co-operation of all interests in society.

This is reflected in the way policy preparation is organised. The structure can be regarded as corporatist, in which government and organised interest together search for solutions. "[O]rganised interest does not have to lobby, they are welcome partners in the conference room" (Hartog, 1999: 8). The third characteristic is thus formed by the framework of institutionalised contacts between government, social partners, centra1 bank, CBS, CPB and advisory boards. The representatives of all these groups meet each other frequently, both in forma1 (meetings of the SER, STAR, spring- and autumn-consultation, CEC, REA) and informal occasions (receptions, farewell parties, etc.). These frequent contacts culminate into better information exchange and thereby prevent misunderstandings. But this network with a relatively low number of players and a high meeting frequency is also very favourable for the formation of trust. The Dutch institutional framework seems to fit almost completely with micro findings on how to build trust-enhancing networks. The group of players is relatively small. As we have seen from the interview by Klamer (1990) there is a lot of repeated contacts between the players. A substantial part of it is face-to-face and informal (see e.g. Ostrom and Walker (1997) for an analysis of public good games in which face-to-face communication leads to substantial increases in co-operation). Every player belongs to an organisation, so reputations can be smoothly transferred from one representative of the organisation to the other. With other words, a reputation of trustworthiness does not disappear (completely) when individual persons are replaced. Reputations are important, because policy-making is a dynamic process. Organisations meet each other over and over again, and know that this will not change in the coming years. Together with the aspect of the smal1 group, this leads to the fact that the possibilities for learning and control are substantial.

For the situation in which repeated interactions between agents take place, Buskens (1999) distinguishes two types of effects on the behaviour of the trusting party. These are leaming and control. "Learning indicates the extent to which a trustor can modify her expectations about characteristics of a trustee from observing his behaviour in past transactions. Control indicates the extent to which the trustor can influence the trustee's behaviour via sanctions anticipated by the trustee" (Buskens, 1999: 11). Leaming and control become more powerful, when repeated transactions are not only taking place on a bilateral basis, but are also observed by other agents who act as (potential) transaction partners. Social networks and reputation become important in this situation. In the Dutch framework with smal1 groups and high frequency of contacts, we see that people leam quickly about the behaviour of others. Reputations spread fast. When some party acts against the norms, it can be punished quickly both within the group (news travels fast in smal1 groups with frequent contacts) and in public (with help of the press). In this way, a good reputation becomes valuable for organisations. Once obtained a reputation of trustworthiness, they will be eager to keep it, for it enables them to participate in mutually beneficial transactions.

The fourth characteristic is the specific legislation on collective labour agreements that promotes co-operation between firms and unions at the leve1 of industry and single firm.

As a last characteristic we can see the tendency to decentralisation. Since 1982, the govemment has withdrawn itself from direct intervention in wage negotiations, thereby giving the first responsibility for a sound wage development in hands of social partners. This forms a trigger mechanism for social partners to co-operate. Both union and employer federations want the government to stay out of "their realm". They know, however, that the govemment has the power to intervene when they do not succeed in negotiating reasonable labour standards. This forms again an incentive for co-operation. Above this, every time co-operation succeeds, trust grows between the parties, which makes co-operation even more likely in the future.

4. Labour market theories and trust

In the previous section, it was shown how the specific Dutch institutional framework promotes co-operation and trust between the economic policy makers. This section connects some theories of the labour market, like specific investment, the hold-up problem, union behaviour and search theory, with the concept of trust, thus showing the importance of trust in theoretical considerations. After this, we consider the appropriateness of the theoretical model forthe Dutch situation. In the following section this model and its consequences are related to the policy measures that are held responsible for the Dutch miracle.

Hold-up problem

The hold-up problem can be seen as a result of a combination of bounded rationality, scarcity of information and uncertainty. These three make it impossible to write down complete and legally binding contracts, which opens the way for opportunism: people can gain short-term benefits by cheating. The combination of opportunism and specific investments can lead to hold-up problems (Williamson, 1985). Specificity of an investment means that the value of an investment is directly dependent from the continuation of the relationship. An example of a specific investment is a firm investing in the skills of an employee while these skills are only valuable in this specific firm. The effect of this investment is that the labour productivity of the employee in this firm is raised. As long as the employee stays within the firm, the investment leads to extra rents (to be divided between firm and employee). When the employee leaves the firm, these gains are lost. This gives additional bargaining power to the employee, because he can threaten to leave the firm. The lack of complete contracts hinders in this case mutually advantageous trade. Though there are profitable investments to be made, potential investors refrain from doing so, because they are afraid that their transaction partner will hold them up.

A solution for this problem is to allocate ex-post (after the investment has been done) bargaining power to the party that carries out the investment. The obvious way to do this is by intemalising the transaction. Labour, however, cannot be intemalised (that would mean slavery). The second best solution seems to be the agreement on a long-term contract. The wage in such a contract should be between the outside options for firm and employee. The outside option for the worker is his fallback position outside the firm. It is the wage that other firms would want to pay for his services. Since the specific investment raised the productivity of the worker only in this specific firm, this outside wage is usually lower than his inside wage. This outside wage (or marginal productivity of the worker before the investment) forms the lower boundary of the inside wage. The outside option of the firm is equal to the cost to hire a new employee and to train him until he has the same productivity leve1 as the incumbent employee. The cost of a new employee (the marginal productivity after the investment) forms the upper boundary of the wage. As long as the wage is between these outside options, it is efficient for both parties to continue the relationship. This situation is called "mutual hold-up" (Hashimoto, 1981). Both parties are not credible in their threats to leave the relationship when the wage is in this corridor between the outside options. It is efficient for both of them to continue the relationship.

A solution for the hold-up problem could be that parties write nomina1 contracts on the distribution of the returns a priori, or with other words, parties fix in a contract the nomina1 wage leve1 in the corridor between the outside options (also see MacLeod and Malcomson, 1993). To prevent the appearance of hold-up problems, it is stipulated that there will be in first instance no renegotiations about the wage level. There will be only renegotiations, when one of the outside options becomes binding. In this way, inefficient separations can be prevented while the hold-up problem is suppressed.

A problem with this model is that it relies on the assumption that both parties know each respective outside options. Although the model is restricted by this unrealistic assumption, there is some evidence that the model describes reality to some extent. Beaudry and DiNardo (1991) show that the lowest unemployment rate since the start of a job has a strongly significant upward effect on the current wage, which is considerably larger than the effects of the current employment rate, and the unemployment rate at the start of a job. The lowest unemployment rate can be considered to be the period with the most valuable outside options for the workers, which, according to the model, should result in upward adjustment of the wage to prevent incumbent workers from leaving the firm.

The problems involved with the "shaky" assumption that both parties know each outside options grow, when the economy is hit by unexpected aggregate shocks. It could be assumed that parties know how to handle with idiosyncratic shocks, but it seems less likely that this is also the case for aggregate shocks. Two unfavourable situations can occur. First, there will be renegotiations of the contract and the employer is held-up. Second, the employer refùses to renegotiate in fear of being held-up and inefficient separation takes place. Both possible situations lead to a lower than efficient investment level. The micro leve1 thus seems not to be the right place to adjust nomina1 contracts to aggregate shocks.

A solution for this problem is to delegate the task of adjusting contracts to aggregate shocks to corporatist organisations. By delegating the wage negotiations to a higher level, the link between bargaining power as a result of specific investments and the leve1 of specific investments is broken. Negotiators at the higher leve1 are less prone to opporhmism. They bargain over wage changes for whole industries, while the specific investments vary per firm and employee. Above that, unions don't want to put their relationship with the employer associations at stake. Furthermore, we can say that "[a]ctive corporatist intervention is superior to mechanica1 adjustment rules, as these rules can never anticipate all contingencies. Rules require shocks to be contractible, while for corporatist institutions shocks need only be observable" (Teulings and Hartog, 1998). It is too costly to arrange a contract that includes all eventualities and their remedies, ex ante, but it is always possible to adjust the contract after some particular shock occurred.

Two types of labour unions

This way of contract adjustment by delegation to organisations at a higher level involves that both unions and employer organisations are trying to maximise the joint surplus of both sides. In the standard neo-classica1 models of union behaviour, unions only try to maximise the utility of their members. This may describe the situation in decentralised economies very well, but certainly not in economies with a corporatist design (also see Teulings and Hartog, 1998). In decentralised economies in which no bargaining at a centra1 leve1 takes place, unions have an incentive to operate in antagonistic ways. They strive to get the highest possible wages for their members. On the short term, this fulfils best the wishes of their members. Membership of a union is thus interesting for workers. These kind of unions have an incentive to raise their membership leve1 in firms in which they are already active, since this increases their bargaining power. Threats of strikes or other obstructions of the work process become more credible with higher rates of membership. Firms will react in hostile ways to this union behaviour and do everything to prevent unions from getting a solid base in their enterprise. This leads to a scattered presence of unions among firms. In some firms, they are very powerful and this makes it attractive for employees to become and stay member, in other firms, they have hardly any members and the management of these firms prevents them from growing.

In more corporatist societies with centralised wage bargaining, the strategy of unions is different. They have an incentive to maximise the joint surplus by bargaining in ways as to prevent hold-up problems. Because these negotiations lead to higher efficiency of the economy, employers carry a benevolent attitude towards these co-operative unions. The labour unions can demand a portion of the extra rents that result from the increased efficiency in the form of higher wages. Economies that are characterised by co-operative unions, show a diffusion of union members over all industries, but with low average union density. Free-rider problems are involved with this. To prevent hold-up problems, the results of the negotiations apply to all employees, so that union membership does not offer the "carrot" of a higher wage.

A second source of different incentives for these two types of unions comes from the problem of insider power. Co-operative unions feel the pressure of their members to first promise the employers a co-operative strategy, but, after specific investments have been made, to use their increased bargaining power to demand a larger fraction of the extra rents, which would mean a switch to antagonistic practices. This "insider power" can be kept under control, when membership is spread over different industies as is usually the case in corporatist societies. Different members are then confronted with different idiosyncratic shocks, which leads to a minority of members that wishes wage increases, being ruled out by a majority of members that wants to save their reputation and keep on with maximising joint surpluses. This makes unions in corporatist societies credible (and unions in decentralised countries incredible) in their co-operative stance.

Trust involved

The mechanism by which hold-up problems are prevented in corporatist economies requires a substantial amount of trust between the bargaining parties. Both parties, employer and employee organisations, can feel the incentive to cheat. This problem can be seen as a prisoners' dilemma problem. The social optimum would be to co-operate, but there are short-term incentives to defect. Why would parties trust each other? A first reason can be found in the value of a reputation of trustworthiness for a party. Having such a reputation creates value, because it stimulates other parties to engage in mutual benefícial trust-related transactions. The higher the frequency of these transactions and the easier it is to recognise the trustworthiness of the players, the more valuable the reputation becomes. Players will thus be very careful not to waste their reputation.

A second reason for mutual trust comes from social norms. These can help to solve these co-ordination problems by providing a focal point in the (re)negotiations about future wages (also see Teulings and Hartog, 1998). The norms ensure that the beliefs about the out-of-equilibrium behaviour of others are in place, and the others will stick to the implicit contract during the renegotiations process. Social norms also have an important function in making the individual firms and workers accept the centrally bargained agreement as being a focal point. The individual members must trust their representatives at the centra1 negotiations to have bargained the best possible agreement for them. The representatives must trust that the individual members will support their bargained outcome. Without this mutual trust, the system does not work. There is no sense in bargaining at a centra1 leve1 if the individual employees and employers are not willing to accept the results[6].

A specific norm that could offer such a focal point is faimess. The literature on microeconomic experiments shows that unfair behaviour is usually reciprocated by severe punishments, even when this creates some costs for the punishers themselves (see for example Giith, Schmittberger and Schwarze (1982) and Camerer and Thaler (1995) for findings of negative reciprocity in ultimatum games, and Ostrom (2000) for a short overview of findings in public good experiments). The bargained labour conditions will therefore have to be considered fair. The source of the norms of faimess differs between decentralised and

[6] In the case of the Dutch metal sector, Poortvlied and Akkerman (2000) conclude that most of the centra1 recommendations of the STAR appear at the agenda of CLA-negotiations at the industry and fum level. Members of the STAR have in genera1 a positive judgement about how their recommendations have worked through into the results of the CLA-negotiations.

corporatist economies. In decentralised economies, the focus is entirely put on what happens at the level of the firm, since information about shocks that occur at the aggregate level is not or insufficiently known. So, the focal point will also be perceived at the level of the firm and rent sharing at this level becomes the norm. In corporatist societies, the focal point is at the macro level where corporatist organisations bargain over their "central agreements". With this focal point of fairness, it is very difficult for firms to deviate and set their own standards without facing the risk of retaliation.

The findings of Gordon (1994) can be related to this. He shows some evidence that antagonistic labour relations can be associated with decentralised economies, and co-operative relations with corporatist societies. In decentralised economies, the supervision intensity is substantially higher than in corporatist economies. The bargaining power of individual employees is in the former probably put in check by supervision measures, whereas in corporatist societies social norms and the delegation of power to higher levels fulfil this task.

Appropriateness of the hold-up model

Can the Dutch institutional context be linked to the hold-up model? The way in which wages are yearly adjusted gives some evidence. The structure of the yearly wage increases in the Netherlands fits very neatly in the MacLeod and Malcomson contract model (also see Teulings and Hartog, 1998: 271). A first corresponding aspect is that the contracts are written in nominal terms.

The second resemblance is the decomposition of the wage increases in three parts. The first part concerns the contractual experience and tenure profile. Usually, every employee gets a yearly wage rise, because every additional year of tenure rises him one step at some specified fixed-wage scale. This part of the wage increase can be seen as the contracted wage increase in period 1 for period 2 when no shocks occur. The second component of the wage increase is negotiated by the corporatist organisations and consists of a fixed percentage increase for all wage scales. This is called the contractual initial increase, and can be seen in the model as an adjustment to aggregate shocks that can be better handled by corporatist organisations than by negotiations on the firm level. The last part of the wage increase are the incidental increases, which is the set of increases not explained by components one and two. These changes are negotiated at the micro level. Notice that this component is zero for two thirds of all workers, which is in line with the implications of the hold-up model.

Also corresponding with the hold-up model is the Ceedom of employers to set wages for new hires. Wages for new hires are almost never set at the lowest possible wage scales specified by collective labour agreements, but based on the subjective interpretation of the capacities of the new hire by the employer. When the new employee is settled in a specific wage scale, he follows the yearly increases as is contracted by the corporatist organisations on the industry level. In terms of the model, the micro level is best suited to value someone's particular capacities, a higher level is best suited to determine the appropriate wage increases as reaction on aggregate shocks.

Other aspects of the model that are similar to the Dutch practice are the long-term collective labour agreements and extensions which are very common in the Netherlands. They form an institutional structure in which employer and employee organisations can make long-term agreements on the development of wage costs. In the discussion of specific investments, we have seen that it facilitates mutually advantageous trade, if ex-post bargaining power is allocated to the party that carries out important non-contractible investments. Applying this to the literature of search models, in which specific investments occur in the creation of vacancies and searching for jobs, the Hosios condition tells us when the search intensity of workers and welfare of society are maximised (Hosios, 1990; Boone and Bovenberg, 2000). This process hinges on the relative bargaining power of workers and employers, which results in the relative distribution of the rents. Too low bargaining power for workers implies low search activity because of low wages, while too high bargaining power discourages employees from looking for a job because the probability of finding one diminishes when wages rise. Stating the division of rent in long-term contracts prevents the employers and employees from enlarging their bargaining power. Such a change in bargaining power would mean that the ex-post level of bargaining power would differ from the ex-ante optimal level of bargaining power with as a consequence that the optimal distribution of rents would be disturbed.

We may conclude that the model of MacLeod and Malcomson that describes long-term contracts as solutions for hold-up problems is relevant for the Dutch situation. We saw above that delegation of wage bargaining to corporatist organisations even further mitigates hold-up problems when social partners act trustworthy in the bargaining process. Since we have seen, in the previous section, that the Dutch institutional framework consists of several trust enhancing features, it seems appropriate to link these observations with the actual policy measures that are held responsible for the economic recovery. This is done in the next section.

5. Trust and the Dutch practice

This section pays attention to the three policy measures that are considered to be mainly responsible for the Dutch miracle. They will be analysed in relation to the model of section 4 and the importance of trust between the main players. Before this, we focus on the Wassenaar agreement, which is seen as the starting point for these new policies.

Wassenaar Agreement

The most famous agreement that is produced by the STAR is the central agreement of Wassenaar in 1982. This agreement, in which wage moderation is coupled to labour time reduction, is seen as a turning point from the Dutch disease to the Dutch miracle. It marks the moment that unions and employer associations started realising that they had to co-operate in order to find a way out of the economic crisis. Although the Wassenaar agreement was maybe nothing more than a beacon of change – its text is rather short and vague – after it mutual trust developed quickly and the agreement was followed by a string of other central agreements. It marked the beginning of an “ideological pacification” between social partners (also see Van Bottenburg, 1995: 199).

How did the agreement come into being? As we saw before, the economic situation in the beginning of the 1980s was unsustainable. The unions were not in a favourable position. They were losing members in a fast way and the government was threatening to use wage measures to get rid of the automatic price compensation rule (Van Bottenburg, 1995: 194). Especially the threat of the government to intervene seems to have functioned as a trigger mechanism for social partners to reach an agreement. The unions reasoned that they would gain nothing if the government intervened, but that they could expect something in exchange if they would reach an agreement with the employers. The compensation the unions sought (and got in the end) was a redistribution of work. This redistribution, given shape as labour time reduction, was meant to fight unemployment.

It is noticeable that not only the unions had an incentive to prevent govemment intervention in the wage development. Also the employer associations wanted to leave the government out of the realm of labour market negotiations, although they had a different motive. The employers were wary about the leve1 of ambition the government would attain to lower unemployment. They feared that the govemment would copy policy measures implemented in France and Belgium, where govemments announced collective job plans and obligatory working time reduction (also see Visser and Hemerijck, 1997).

Notice, however, that the centra1 agreements, signed by the chairmen of the employer and employee federations, are not binding for member unions and associations, nor for individual members. They just function as a focal point for negotiations at lower levels about labour standards. This is reflected in the names given to the centra1 agreements. They vary from "centra1 recommendations" (1982), to "common policy framework" (1989), "social-economic policy orientations" (1992) and "agenda for the discussion on collective labour agreements" (1992).

Although these centra1 agreements of the STAR only put mora1 pressure on negotiating parties at industry or firm level, this mora1 pressure has proved to be strong enough to change the outcomes of labour negotiations to a large extent. The agreement of Wassenaar of 1982 is illustrative. The Wassenaar agreement stated the importance of restoring firm profitability through wage moderation. Together with labour time reduction, this should encourage investments in employment. The agreement was very short, written in vague terms and not legally binding. The results, however, were impressive. In reaction to the Wassenaar agreement, the govemment enacted a law that made it possible to open up all existing collective labour agreements and to postpone the automatic price compensation. In one year, about two thirds of all collective labour agreements had. been renegotiated. On average, the price compensation was postponed for two years and the average working time declined with five percent. Between 1983 and 1985, the average wage decreased in real terms by nine percent (Visser and Hemerijck, 1997). The labour income ratio decreased from 95.3 percent in 1982 to 81.5 percent in 1989.

An additional stimulus for the instrument of wage moderation came from the CPB. More or less as a coincidence, the CPB based its economic policy analyses at the end of 1970s on a vintage model in which the favourable effects of wage moderation on employment were much stronger than the negative income effects (Den Butter, 1991). According to the model, lower labour costs would have a strong positive effect on the economy, because it increased the return on capita1 and would therefore postpone the replacement of machinery by more labour-extensive ones. So in accordance to the model, the CPB already had "instructed" social partners and govemment for some years, that wage moderation would be the most appropriate measure to revive the economy. It marked the end of Keynesian demand policy.

A third important result of the agreement of Wassenaar, besides the stimulus to further co-operation between social partners and the start of a policy of wage moderation and work redistribution, was the retreat of govemment from the realm of labour market negotiations. This implied a drastic break with the past. Before 1982, the govemment intervened often and in a direct marmer. In the nine years before the Wassenaar agreement, the govemment intervened directly with wage measures in six respective years. In the period after 1982, the govemment abstained from interference. It always followed the developments in labour standards closely, but used the possibility of wage measures only as a trigger mechanism to make sure that social partners would by themselves reach reasonable negotiation results[7]. Although the govemment does not intervene anymore in a direct way in the field of labour standards, it stil1 influences and supports developments that it considers favourable for the economy. For example, the govemment supported the policy of wage moderation that social partners had agreed on, by lowering taxes and premiums for social security. In this way, the decline in purchase power of families was softened and thus made the agreement more acceptable for workers. Another example is that when social partners agreed on redistribution of work and ongoing liberalisation of the labour market, the govemment responded with a law on flexibility in labour relations, thereby adapting the law to the changing preferences for flexible working hours.

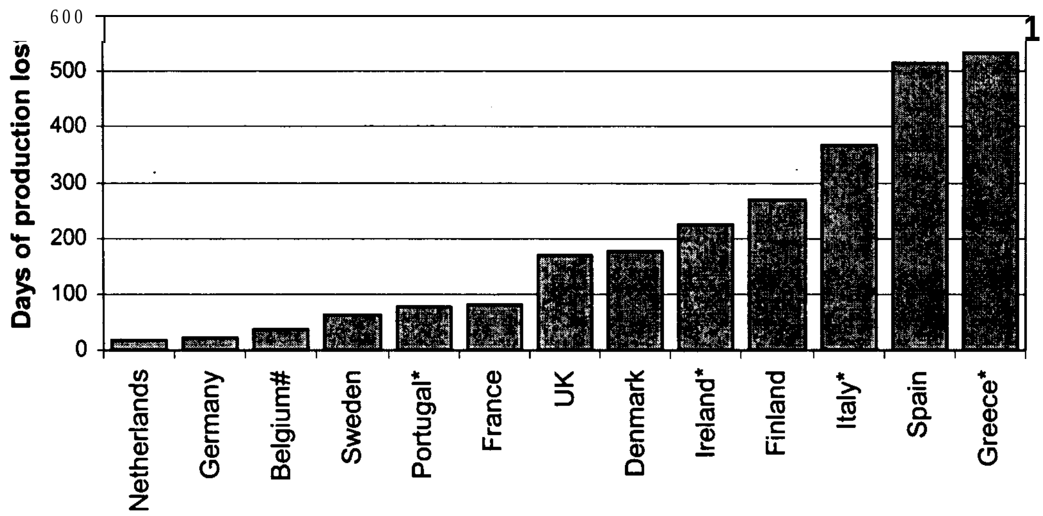
A background for the creation of the Wassenaar agreement can be found in the "sense of urgency"-feelings that arose in the beginnings of the eighties. The WRR and several committees wrote alarming reports about the state of the economy. A contibuting factor to these "sense of urgency"-feelings is the fact that policy makers know that the Netherlands are a smal1 open economy and therefore rather vulnerable in an intemational economic context (also see Katzenstein, 1985). The policy makers are aware of the fact that they don't have the possibility of protectionism to guard their industries. The Netherlands are too smal1 to have an impact on world economy, so it is the Dutch who will have to change when the economic environment changes. This forms another element that forced the Dutch to develop problem solving ways of decision making and inter organisational co-operation between govemment and social partners in order to reach consensus about adjusting to changing economic environments in flexible ways.

Policy measures

It is interesting to see how the theoretical considerations regarding the model of the labour market of section 4 relate to the three main policy measures that are held responsible for the Dutch miracle. First, the most important, as stated before, was the policy of wage moderation in combination with the promise of employers to invest in employment. This can be seen as the clearest example of a long-term view of social partners and of a situation in which bargaining power has not been used to disturb the distibution of rents. The fact that social unrest, in the form of strikes, was extremely low by intemational standards (see figure 6), can be seen as a proof that labour relations were healthy even after two decades of sustained wage moderation.

[7] Since 1982 the govemment stil1 has the right to proclaim a ceiling on wage rises, but the law only allows for these wage interventions in case the interests of the national economy require intervention because of sudden extemal shocks to the economy.

Figure 6: Annual average of production days lost by strikes, per 1000 workers (19824998)



Source: CBS. # missing data for 1982-1984, 1986, 1987. * missing data for 1998.

The second important cause is found in the flexibilisation of the labour market. Notice that both the first and second cause found support or maybe even originated in the Wassenaar agreement. Although unions used to oppose flex work, during the eighties and nineties they reached consensus with the employer organisations as how to organise the rights and duties of flex workers. In 1999, a law on "Flexibility and security" came into force, which provides a legal protection for flex workers. This attitude of willingness to adapt to a changing environment is one of the reasons that flex work took a high flight in the Netherlands. Between 1970 and 1996, the number of part-time jobs increased with 1.2 million to 1.8 million and the number of flexible jobs increased with 500,000 in this period, whereas the number of full-time jobs stabilised at 3.7 million (Hartog, 1999). The opportunity for flex work thus made a huge increase in employment possible. Again, consensus between social partners and govemment were the basis of this development.

Reforms in social security are considered as the third cause. They lowered the replacement rate and thus stimulated the search for work. Furthermore, they had a positive impact on government fínances, and thereby on taxes and insurance premiurns. The lowering of taxes and premiums was used as support for the policy of wage restraint. Social partners, however, played a more dubious role in the field of social security. Attempts of the government to create fínancial incentives for sick and disabled workers to start working again, have been systematically countered by social partners. Decreases of the benefit leve1 were all "repaired" through collective labour agreements[8]. Social partners also frustrated policies that were meant to curb the volume of benefit recipients. By having a majority in the managing boards of the organisations that were responsible for the implementation, administration and control of the social security system, they were able to grant easy access to benefíts. The disability scheme became a "dump" for less productive workers. This was an easy way for employers to substitute older workers for younger, better-trained and cheaper ones, because employees preferred the structural higher benefits of the disability scheme above those of unemployment,

[8] Although the benefit leve1 in case of sickness declined from 80 percent of the normal wage to 75 percent in 1985 and to 70 percent in 1986, collective agreements made sure that sick employees received a benefit leve1 of 100 percent from the first day of sickness.

and the bill was paid by society as a whole. Reforms in 1994 and 1996 created a privatised Sickness Insurance programme for employees. In 1995, as a "punishment" the administration and operative control of unemployment, sickness and disability insurance was taken out of the hands of social partners and given to independent institutes. Yet, high social security expenditures for sickness and especially for disability (WAO) stil1 constitute the major dark side of the success of the Dutch Polder model. This problem will even aggravate in future with the further rise in labour participation and the greying of the working age population (see Scientific Council for Govemment Policy, 2000; Den Butter and Hazeu, 2001). It is the Donner-committee, referred to earlier, which has the task to initiate genuine institutional reform that will get sufficient politica1 support and support from the social partners.

6. **Conclusion**

In an intemational perspective, the Dutch economy has shown a remarkable record of employment and welfare growth, starting in the beginning of the eighties. This paper argues that the Dutch culture of consensus formation constituted a major driving force for this miraculous economic recovery. The institutional framework for social-economic policy preparation displays various features that are in line with theories about trust-formation in networks. Trust between the foremen of govemment and social partners have led to co-operative long-term views on the economic problems, which provided ample societal and politica1 support for drastic policy measures. In this way, the Dutch institutional framework, with its specific forma1 and informal consultation structure, has functioned as an intermediary between trust at the micro leve1 and macroeconomic performance of the country. The way in which the interaction between scientific economic analyses and policy making is organised, contributed to a major extent to the formation of trust and hence to societal support for policy measures that were instrumental in the economic recovery.

Of course, our paper is narrative in the sense that it describes the link between the success of the Polder model and the role of networks, trust and institutions by a one case-study only. So our study cannot be regarded as an empirical test of the relevance of the theoretical argumentation. As a matter of fact, such empirical test seems not feasible anyhow in discussions of the influence of institutions on macroeconomic performance. There are no "winning" institutional models as the social and historica1 background is different for each country (see Freeman, 1998).

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